



Mattias Martinsson is Chief Investment Officer and partner of Tundra Fonder AB, a Swedish asset manager specialising in Frontier Markets. Martinsson, who regularly visits Switzerland, will be again in Switzerland in May, on the 8th and 9th in Geneva and on the 10th and 11th in Zurich. In this two-part interview with MarketPlus, he explains what is particular about Frontier Markets and the peculiarity of Tundra Fonder in this regard.

«We focus entirely on what we call the next generation of Emerging Markets, what we call the Frontier Markets. These are basically Emerging Markets that are about to enter the state which India, Brazil, Russia and China have already achieved. Frontier Markets for us are countries like Pakistan, Vietnam, Bangladesh, Sri Lanka, Nigeria, Kenya and Egypt. These are markets that count just below 800 million people, with an average GDP just below 2,000 dollars and a population twice as big as the Eurozone.

Just after World War II Japan suddenly became an industrialised nation, then it was the turn of Taiwan and South Korea, then China. Six years ago, with the crisis it became apparent that China didn't want to be any longer the low-cost producer of the world. There was a shift when a lot of new foreign facilities were set up in countries, primarily Vietnam, that became beneficiaries of the globalization.

We also see this is now happening in Pakistan, Bangladesh, Sri Lanka and the whole of East Africa. Those markets are trying to follow the historical pattern of globalization mimicking what today's Emerging Markets could achieve in the last 30 years; Frontier Markets are about to enter the world market, they are going to have a more effective role and faster penetration from foreign investors than the traditional Emerging Markets. It is likely these historical patterns will repeat themselves: no one wants to pay more for their cell phone than they did yesterday, cell phones need to be better and better but still cheaper and cheaper. Samsung electronics now produces more than half of their phones in Vietnam, so it's already happening».

What would you describe as the distinctive aspects of your offer?

«First of all, we try to take these markets as serious as Western fund managers do with Western markets. We say that in ten years' time it won't be accepted that a fund manager lives in Switzerland and manages funds in Pakistan or in China or in India. Clients will demand so much more and they will ask that their managers are close to the markets they manage.

We have two offices outside Stockholm, one in Pakistan, in Karachi, and one in Ho Chi Minh City in Vietnam. Those are right now the two most liquid markets: having more people on the ground being able to monitor day to day what's happening on the market, we think that's a great and unique asset and something that very few other fund managers have.

If we look at the developed world, we see some very good fund managers, with excellent stock picking qualities given their deep understanding and closeness to the markets they follow. By concentrating on a niche and not pretending to be good at everything, they are able to build and maintain a clear advantage compared to others. The main challenge to overcome that problem is to make those markets as close as we are to Sweden and as someone is to Switzerland. If you are willing to put the effort into digging deep into few markets at a time and put enough resources into it, then obviously, the opportunity is bigger than in the developed markets, because their growth is 3 times higher.

I think that stock picking in selected markets, having enough people and obviously knowing the most elements will do that. That is how we see it should be done and what we are trying to do».

How did you choose Pakistan to be so prominent in the first place?

«I think that for me it was a longtime dream to start this fund. I started by covering the Russian market in 1996 with a Swedish broker that pioneered Russian equity from Scandinavia. That was before there were any Russian funds in the world, our firm launched the first one in Scandinavia and that is how I got exposed to Emerging Market: I was 23 years old at the time and at this firm I learned a lot about Emerging Markets. After the Russian crisis of 1997-8 with the consequent Russian equity market index falling 97.5%, our desk needed to diversify to survive, and looking selectively at other Frontier and Emerging Markets we came across Pakistan in 2005.

Even though I believe to be an open-minded person, I had such a clear preconception about Pakistan (as still most people we talk to have today!). When I started to investigate, and understand better the market, I saw that its turnover was almost the same as the Singapore Stock Exchange - it was between 500 million to 1 billion USD daily at the time, which was a huge market; and it was driven by local industrials, 80-90% were domestic investors and, most importantly, the companies were applying international accounting standards.

Many of the bigger companies had been around for 50-60 years. The oldest listed company has actually been listed for 116 years and is an alcohol producer. I changed my views on the market and in 2008, two weeks after the Prime Minister Benazir Bhutto was assassinated, I went back again and the visit clearly was at a difficult moment. That said, in a week I travelled to Karachi, Lahore, Islamabad where I met entrepreneurial companies who managed to survive the crisis, that were outgrowing Indian companies in terms of revenue.

I came back and tried to find a fund to invest in, and I discovered that there were no funds managed by a foreign fund manager. Pakistan is one sixth of India in terms of population but there were a thousand India funds and not a single Pakistan fund. I saw an opportunity, to be on a completely different market on all aspects, to be the first to launch a Pakistan fund. I am still convinced today that Pakistan is a market that deserves to have a fund for itself.

From the beginning, we said to ourselves that if we wanted to be serious in doing this and therefore we have this pioneering advantage, we need to set up an office locally, so we opened the Karachi office in 2014 and today the office has 6 professionals working for Tundra».

How is the Pakistan Fund performing?

«Performance has been very good not only in absolute but also in relative terms.

During my trips to Switzerland I am asked more and more about Pakistan and the fund, which clearly makes me extremely proud. But Pakistan is an investment I would say for more experienced investors. Mainly investors that understand the benefits of the Frontier Markets (compared to Emerging Markets or Developed Markets) tend to tiptoe into this asset class by investing in a broader fund, one that comprises most Frontier Markets, and this is normally the other area we concentrate on».

Did you have to face corruption while investing in Frontier Markets?

«There definitely is corruption in Pakistan, which is hampering growth. But you have it in all markets where we are investing. It's a big problem and not helpful for those countries. If someone would say corruption is not a big problem, they would lie.

As these companies still have yearly growth rates of 10-15% these issues, means in my view that corruption will gradually decrease while the market grows and that will be a bonus. Pakistan has a very high standard in the corporate governance and I think that's because the stock exchange has been around for so long and it kind of developed the investment base. The oldest company, 116 years old, was built from the British legal system.

Since I started following the market in 2005 I can't recall a single major corporate governance abuse amongst the larger companies in Pakistan, and that is extremely unusual. I'm sure there are cases that the market does not know about but for Pakistan this is the major advantage and I'm saying to people, to explain Pakistan, that they have a functioning financial and legal infrastructure, a functioning Stock Exchange, companies that are used to following a decent corporate government standard, and you have liquidity and can invest in any sector. That is completely unique throughout frontier markets.

Take Vietnam for example: their Stock Exchange started in 2000, so that's only 17 years old, you can't compare it. They will learn, but it obviously will take time before they are at the same level».

Do you think that the economic development in these markets can be seen as decoupled from the trends seen in bigger markets - EU, USA, China? How strong is the correlation?

«I have a good drawing which shows historic and economic development of our core markets and projections dating back to 2010 from the IMF: you will find that all our core markets are growing two times faster than Developed Markets and this is expected for the next five years as well. That said, Frontier Markets will be affected by the global growth, demand, etc., but they are mainly driven by domestic consumption and domestic drivers: on average, less than 40% of the population lives in the city compared to 80% in the developed world. People who don't have a salary get into the city to get a job, even a very simple one, and they are becoming consumers. Every year 1-2% of the population gets into the city to get some job, better or worse jobs, anyway they are all becoming consumers and that means higher infrastructure, higher taxes, putting children into schools and a very generic growth.

When it happens for approx. 800 million people, you can easily imagine the total effect and how much stronger they can grow compared to the Developed World. If we look at the last ten years, at what is happening right now, and what is expected in the next 4-5 years – despite all possible hurdles - these countries will continue to outpace to grow at much higher levels than all others. And this is what makes them so attractive and from an investment perspective potentially so rewarding if you approach them in the right way».